



Vermont Department of Labor  
Updated proposal 4/3/09

# **Unemployment Insurance Reform Proposal**

***PLEASE NOTE:** The following proposal has been updated as of April, 2009. The “need to reform” and comparison sections are the same. The projections and proposal has been updated in three ways:*

*1) Total average annual unemployment rates have been updated and increased to reflect current unemployment rates and projections based on a consensus from Jeff Carr and Tom Kavet.*

*2) Federal stimulus dollars have been included to the fullest extent.*

*3) The proposal for reform has been updated to reflect changes needed due to federal stimulus or other economic factors.*

## The Need for Reform

Vermont’s unemployment insurance system needs reform. After years with a healthy trust fund, the system is moving toward a negative balance. To remain fiscally viable, the system needs some combination of more revenue and adjustments to benefit payments. Vermont workers have received more in benefits than employers have paid in taxes during 14 of the last 20 years.

The current economic downturn is exacerbating the problem. Higher unemployment will increase payments but the revenue stream will reach its maximum potential by 2010. The trust fund model projections show benefits increasing to \$187 million in 2009 with an assumption of 7.1% average unemployment. Contributions will total \$55 million. Higher unemployment speeds the decline of the trust fund. The system cannot continue in its present form without severe consequences to Vermont and its economic base.

The unemployment insurance program has three goals:

Help stabilize the economy by allowing unemployed workers to continue to spend during periods of high unemployment and taking money out of the labor market during economic expansions. It has both economic stimulus and anti-inflation goals.

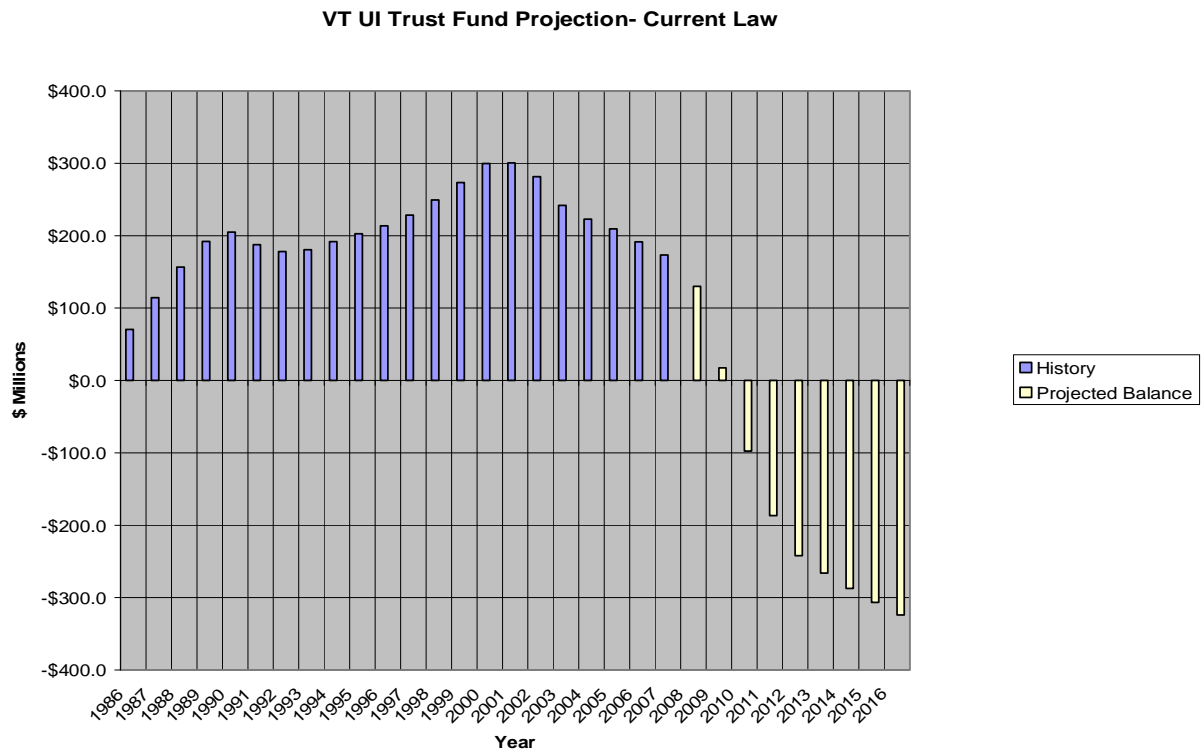
Stabilize the workforce by allowing employees to wait out short term lay offs and then return to the employer.

Mitigate the negative affect of unemployment on workers and their families.

The combination of current benefit and contribution policy in Vermont's law will greatly limit the system's ability to achieve its goals. Without reform, Vermont's UI trust fund will bankrupt. The system will only be able to pay benefits by borrowing from the federal government or other market sources. Trust fund borrowing necessarily leads to much higher federal taxes on the state's businesses - taxes that will exceed current combined state contributions and federal taxes.

## Trust Fund Projections

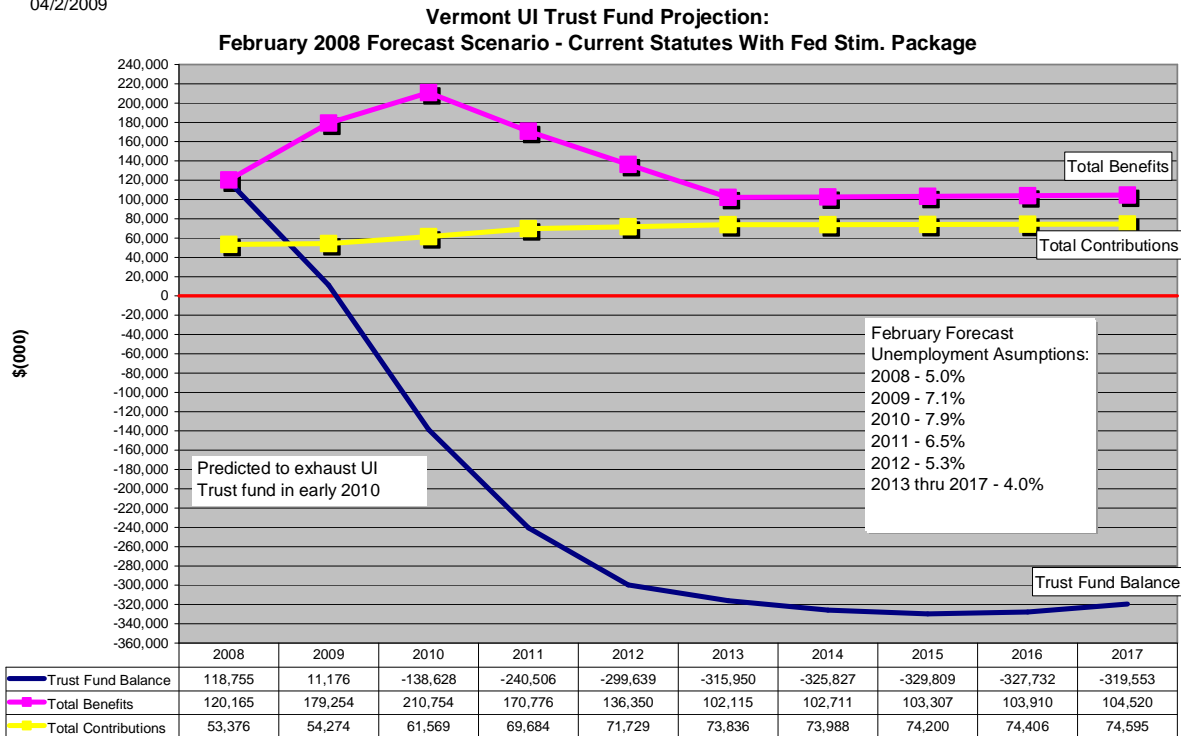
Trust fund projections, assuming current projected unemployment rate increases for 2009 and 2010 show the fund moving into a negative position early in 2010.



The economists' projections assume average annual unemployment rates of 7.1% in 2009 and 7.9% in 2010. Some quarters will exceed that projection with unemployment rates returning to 4% over a two year period.

# What Are the Consequences of not Reforming UI?

04/2/2009



SOURCE: VDOL Benefit Finance Model, March, 2009

# What Are the Consequences of not Reforming UI?

February Forecast Scenario: Current Statutes

4/2/2009

Year	Interest Earned (000)	Trust Fund Balance (000)	Regular Benefits (000)	Extended Benefits (000)	Total Benefits (000)	Total Contributions (000)	Taxable Wages (\$Mil.)	Total Wages (\$Mil.)
2008	6,856	118,755	120,165	0	120,165	53,376	1,961	7,991
2009	3,546	11,176	179,254		179,254	54,274	1,884	8,012
2010	0	-138,628	203,721	7,034	210,754	61,569	2,618	8,120
2011	0	-240,506	167,200	3,575	170,776	69,684	3,325	8,379
2012	0	-299,639	136,350	0	136,350	71,729	3,701	8,716
2013	0	-315,950	102,115	0	102,115	73,836	3,811	9,072
2014	0	-325,827	102,711	0	102,711	73,988	3,848	9,344
2015	0	-329,809	103,307	0	103,307	74,200	3,885	9,624
2016	0	-327,732	103,910	0	103,910	74,406	3,922	9,913
2017	0	-319,553	104,520	0	104,520	74,595	3,959	10,210

Year	TUR	Wage Growth	Labor Force Growth	Taxable Wage Base	Max Weekly Benefit	Tax Rate Schedule
2008	5.00	3%	0%	8,000	409	4
2009	7.10	2%	0%	8,000	425	4
2010	7.90	2%	0%	8,000	438	5
2011	6.50	2%	0%	8,000	438	5
2012	5.30	3%	0%	8,000	438	5
2013	4.00	3%	0%	8,000	438	5
2014	4.00	3%	0%	8,000	438	5
2015	4.00	3%	0%	8,000	438	5
2016	4.00	3%	0%	8,000	438	5
2017	4.00	3%	0%	8,000	438	5
2018	4.00	3%	0%	8,000	438	5

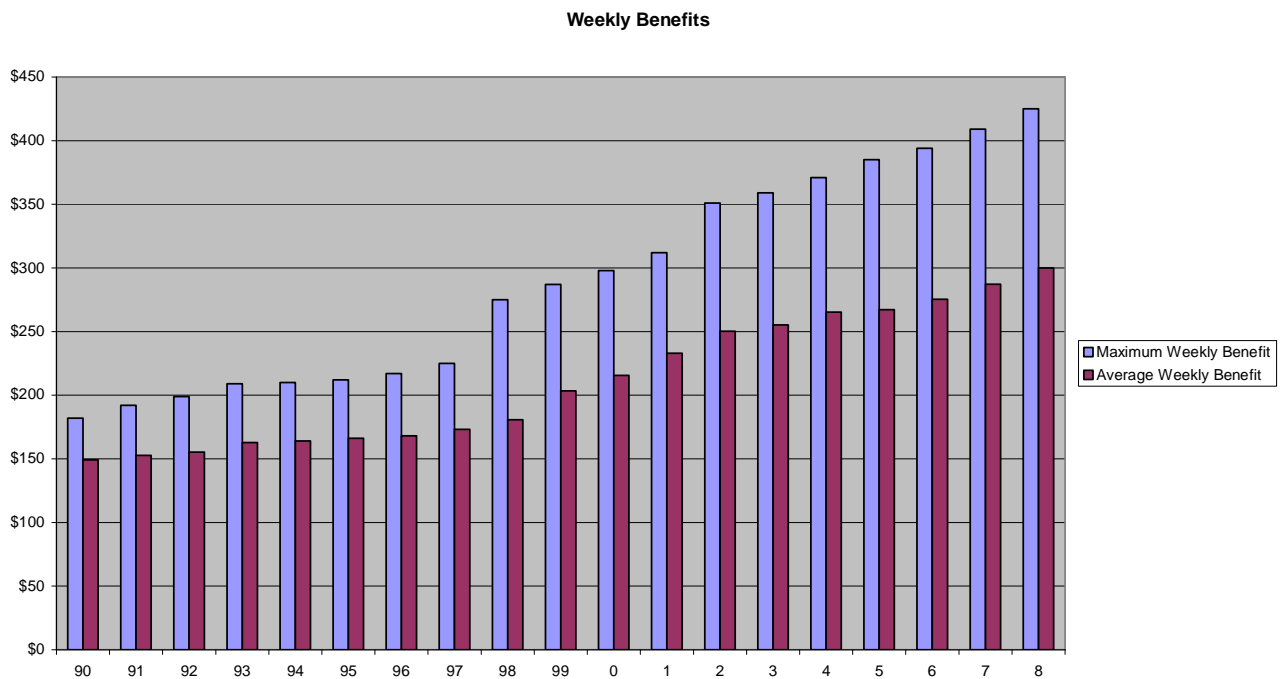
Year	Interest Rate %	Cash Advance Amt (Mil.)	Interest Payable September 30 (Mil.)	FUTA Credit Reduction %	FUTA Credit Reduction Payment Jan 1 (Mil.)	Avg Cost of FUTA Credit Reduction per Ins. Emp.
2008	4.62	0.0	0.0	0	0.0	0.0
2009	4.62	0.0	0.0	0	0.0	0.0
2010	4.78	138.6	0.0	0	0.0	0.0
2011	4.7	240.5	8.8	0.3	0.0	0.0
2012	4.68	299.6	12.6	0.6	6.1	28.3
2013	4.63	316.0	14.2	0.9	12.4	57.1
2014	4.73	325.8	14.9	1.2	18.7	86.3
2015	4.91	329.8	15.7	1.5	25.1	115.7
2016	5	327.7	16.0	1.8	31.6	145.4
2017	5.06	319.6	15.8	2.1	38.1	175.5
<b>TOTALS</b>		<b>2297.6</b>	<b>98.0</b>		<b>131.9</b>	

# What Are the Consequences of not Reforming UI?

1. Vermont will have to take cash advances from the federal unemployment trust fund of more than \$350 million even after using all available federal stimulus funds to pay benefits over the next few years.
2. States may take cash advances from Federal unemployment trust funds. However, if the funds are not repaid by the end of September during the following year, interest will accrue. Currently the interest rate is 4.64 percent. (Some states issue bonds to repay the debt.)
3. Interest payments cannot come from unemployment taxes so a new tax or other revenues would need to be used to pay the interest.
4. The current Federal tax rate is 0.6% of the first \$7000 in wages. If advances are not repaid by September 30 of the year in which borrowed, employers lose 0.3 percentage points of their federal tax credit, effectively increasing the federal tax by 50% the year after a balance remains. Each year the tax credit will decline until the balance is repaid or employers are paying the full FUTA tax of 6.0%.
5. Repaying cash advances through the loss of tax credits effectively shifts costs from employers whose employees get benefits to those who do not. There is no experience rating in federal unemployment tax law.
6. Projections show Vermont will need to take cash advances indefinitely once the fund is emptied, unless reforms are enacted.
7. Under current law, when Vermont takes cash advances to pay unemployment benefits and does pay it back, the maximum benefit amount is frozen.

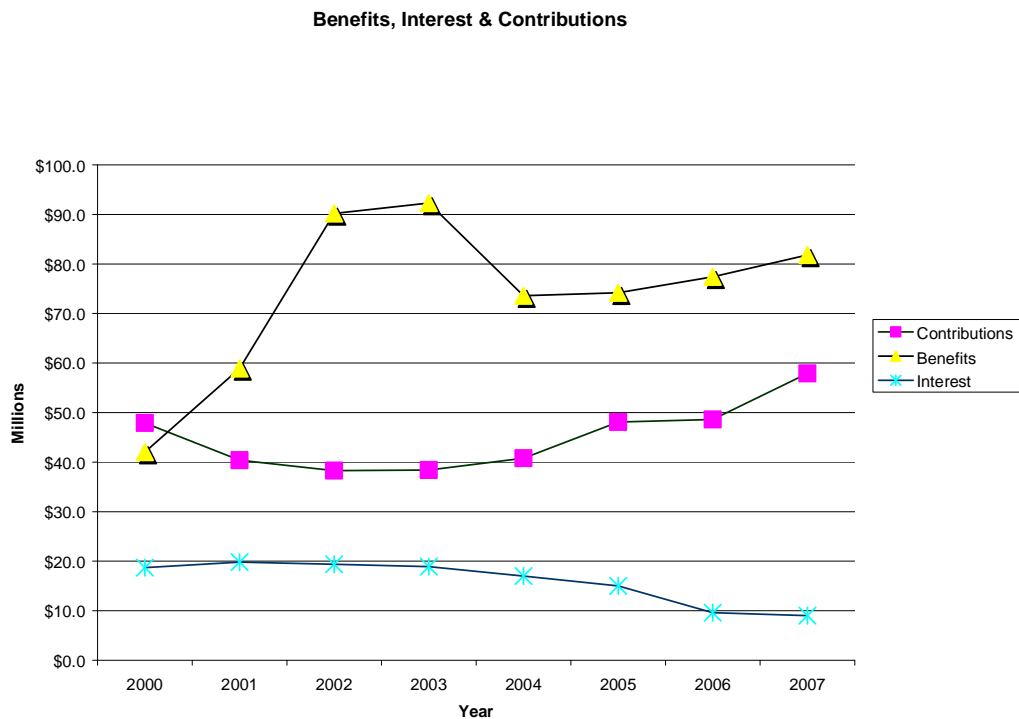
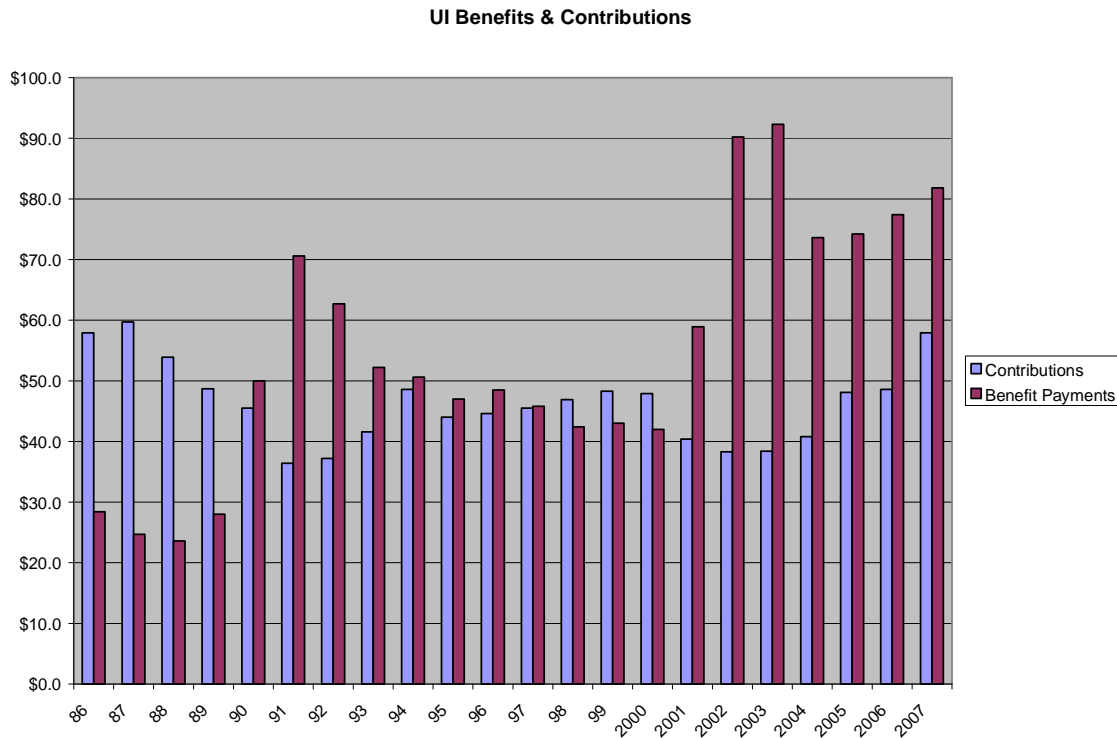
# How Did the Fund Get Into This Position?

*By Vermont statute, benefits increase each year at the same rate as wages.*



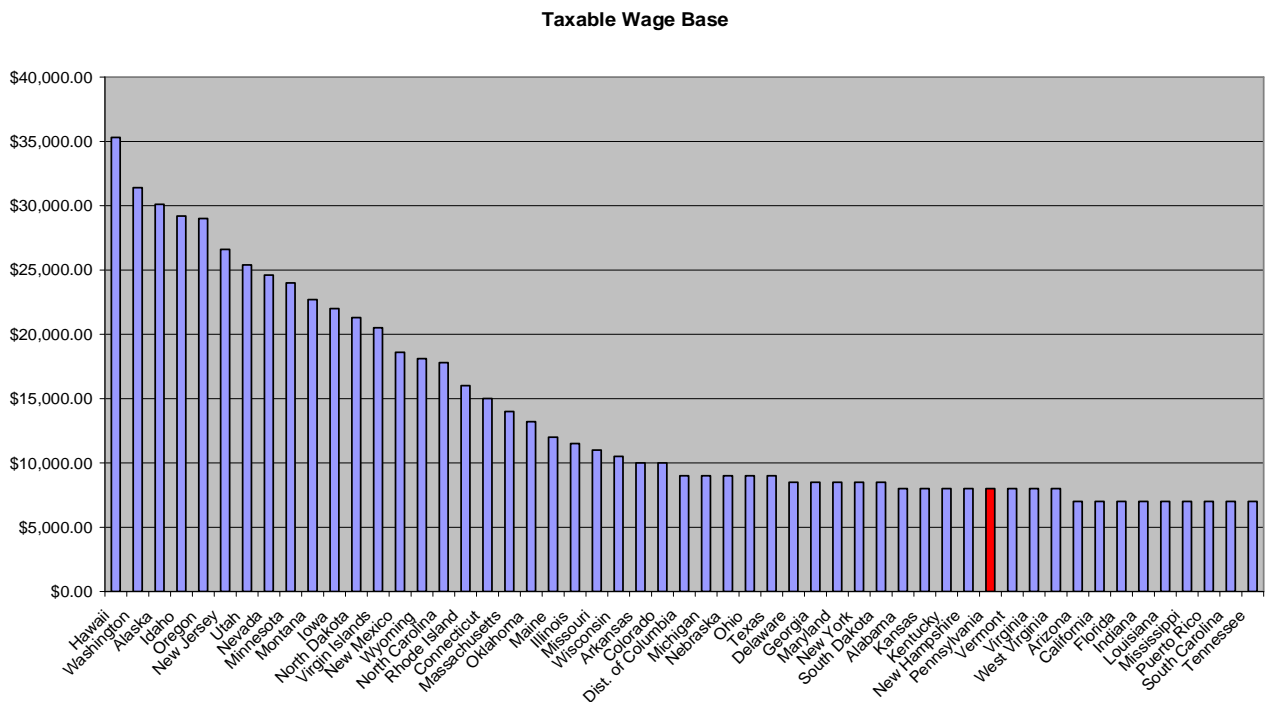
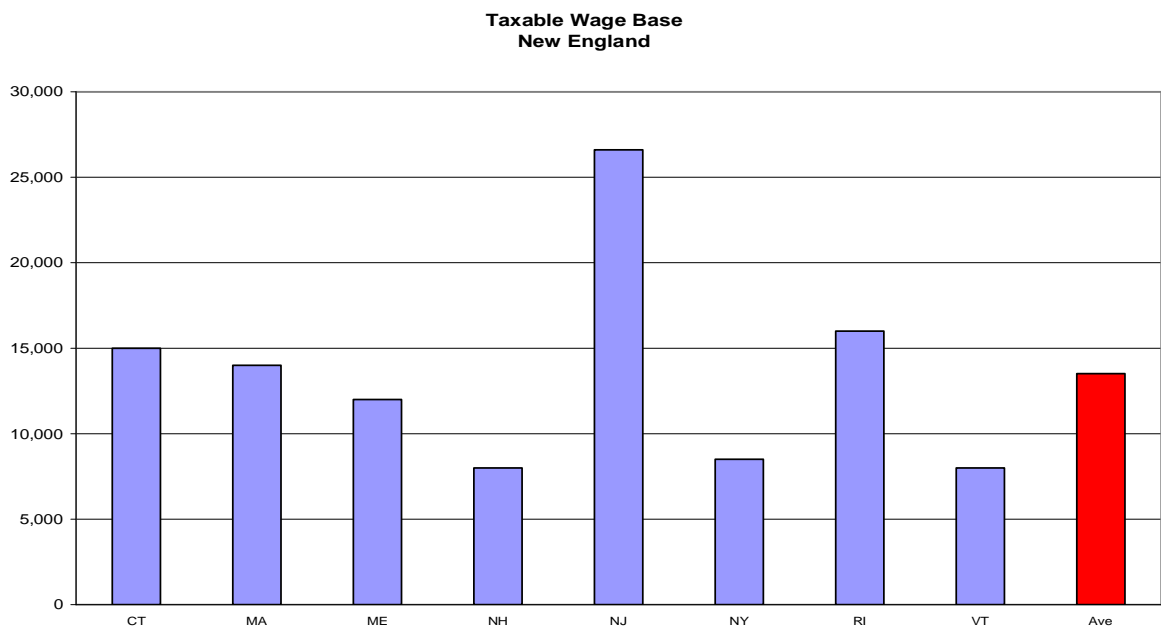
The maximum benefit increases each year at the same rate as the average wage. In 1998 and 2002 legislation passed increasing the maximum more than the COLA.

Revenue has been increasing  
but not fast enough to keep up  
with expenses.



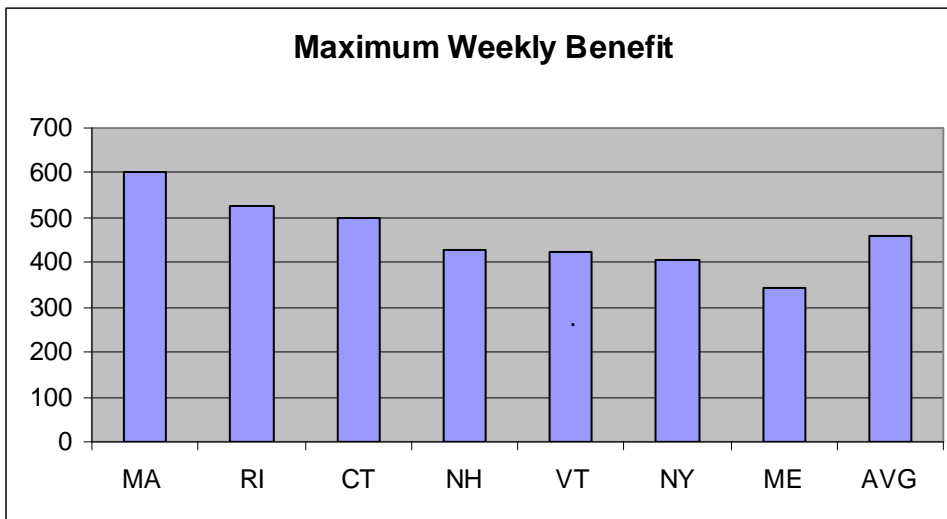
# Taxable Wage Base

*The amount of wages an employer pays taxes on in Vermont (taxable wage base) has not changed since 1983. The taxable wage is the first \$8000 of each employee's wages. When established the taxable wage base represented 50% of the average wage. Today it is 22% of the average wage. It is similar to NH and NY but below the regional average. It is lower than most states.*

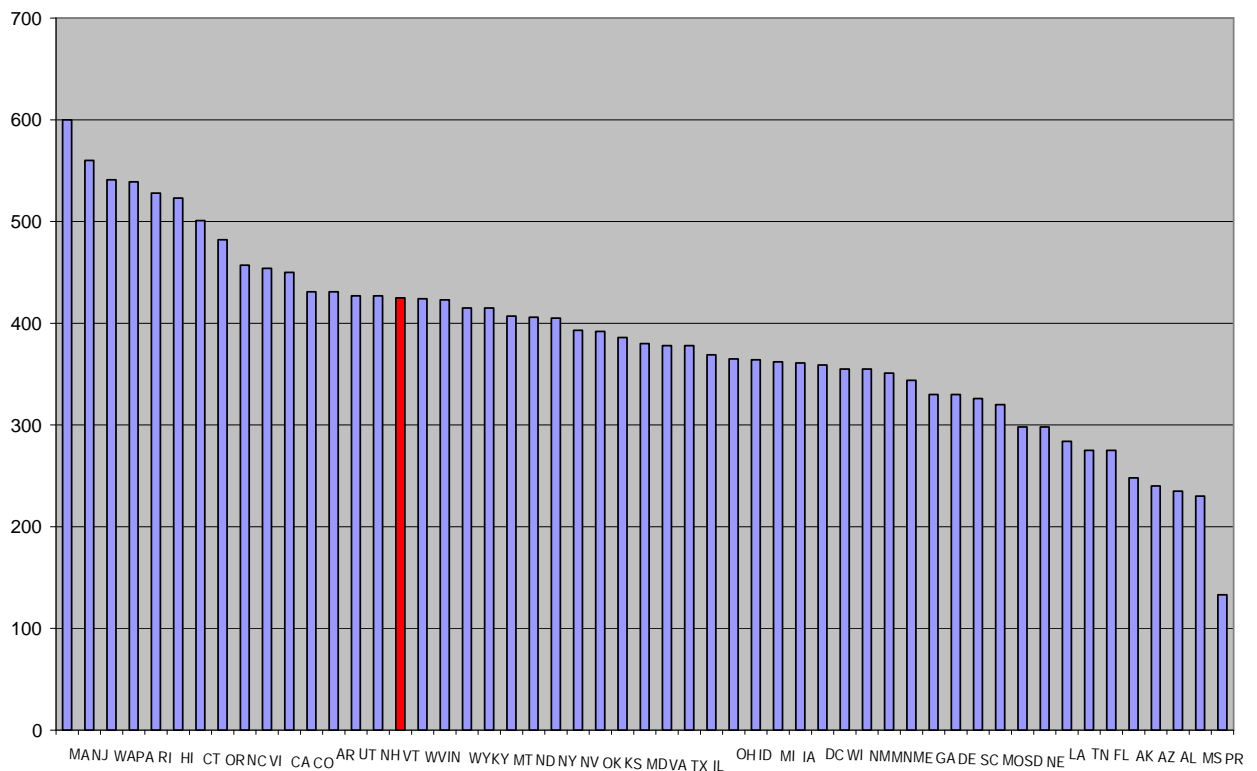


# Weekly Benefit Amount

*Vermont's maximum weekly benefit is comparable to New Hampshire and New York and about average for the region yet above average nationally.*

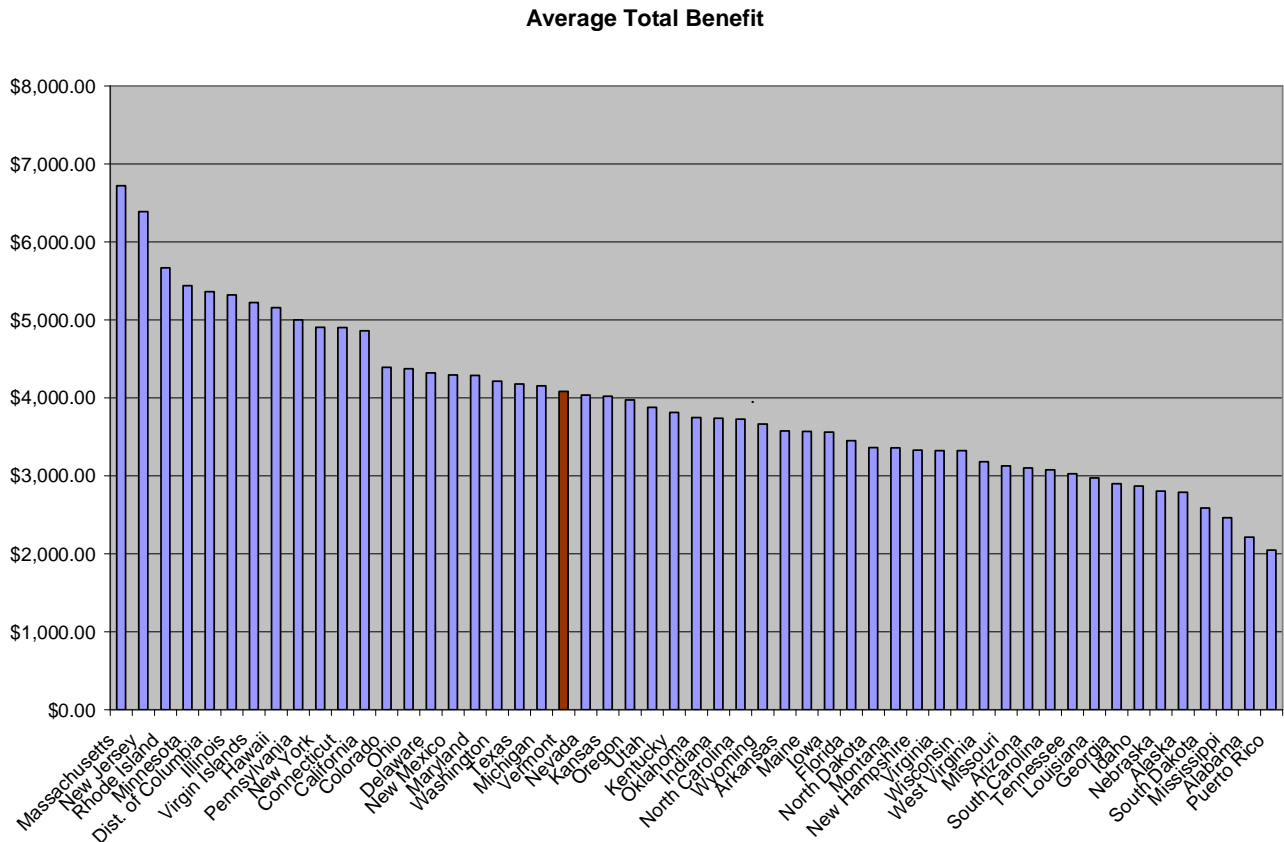


Maximum Weekly Benefit



# Average Total Benefits

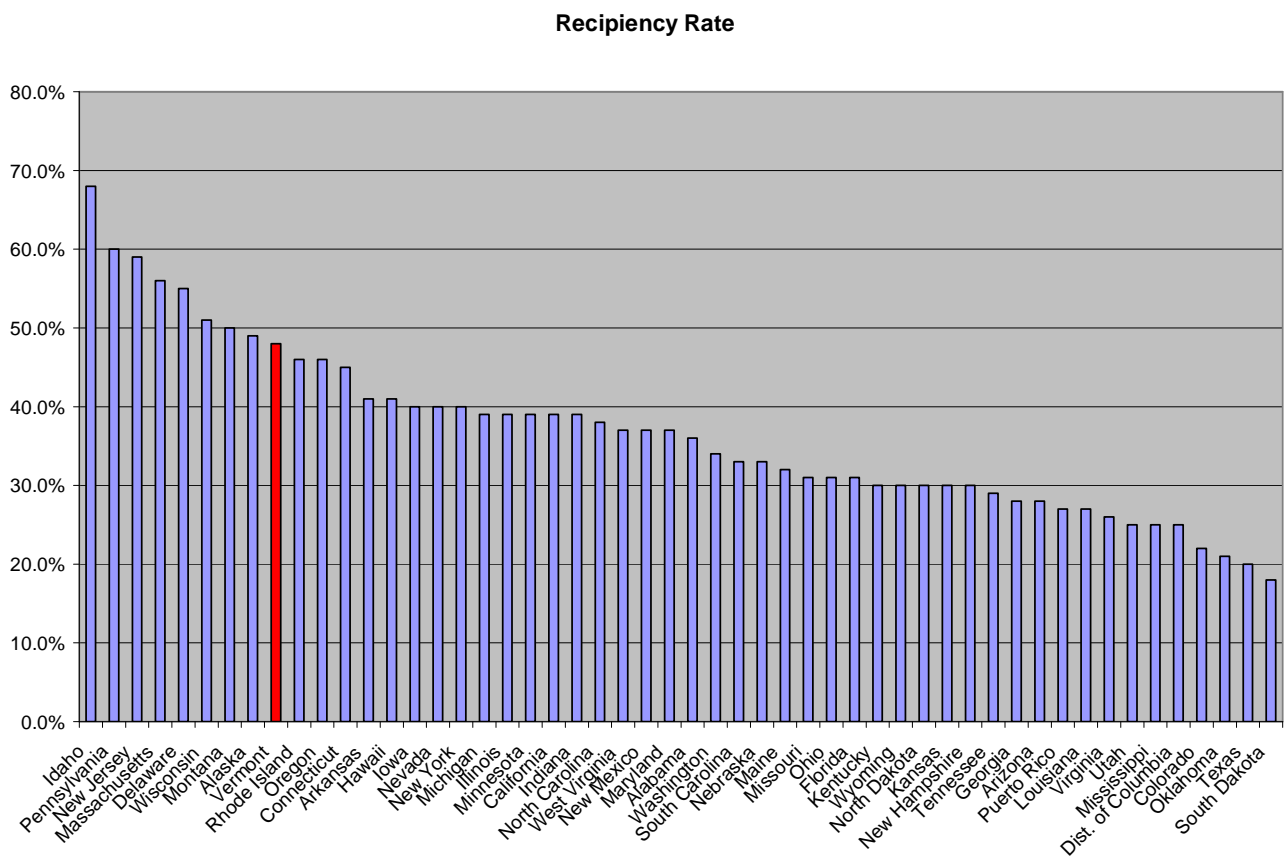
*Compared to the nation, Vermont offers relatively high benefits.*



The average total benefit is calculated by dividing total benefit payments by the number of recipients.

# Reciency Rate

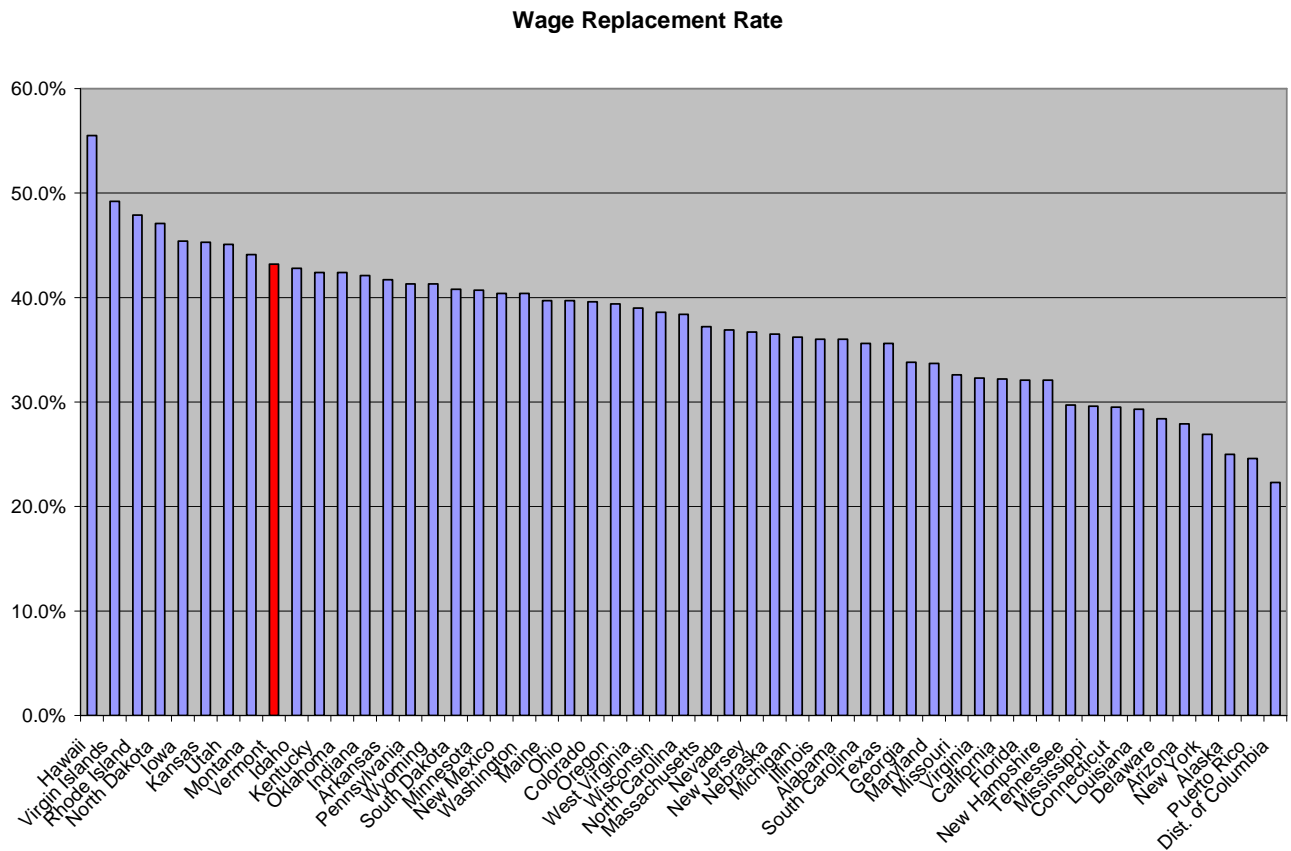
*In Vermont a higher percentage of the unemployed receive benefits than in most states.*



The reciency rate is calculated by dividing the number of people receiving benefits by total unemployed. Total unemployment includes workers with no work history; those denied unemployment benefits, and those workers who were formally self-employed.

# Wage Replacement Rate

*Vermont replaces more of a worker's wages than most states.*



Wage replacement is calculated by dividing the average benefit by the average wage of all workers.

# Tax Table

By 2010, Vermont will be taxing employers at schedule V, the highest UI tax rates allowed by law. Vermont's UI tax system contains 5 schedules. When working correctly, the two schedules with lower tax rates are in effect during downturns and the two with higher rates are in effect after a downturn when the fund needs to be replenished. The middle schedule would theoretically maintain the fund if the economy remained stable at the long-term average unemployment. Currently schedule IV is in effect.

Rate Class	From	To	I.	II.	III.	IV.	V.
0	00.00	00.00	0.4%	0.6%	0.8%	1.1%	1.3%
1	00.01	05.00	0.5	0.7	0.9	1.2	1.5
2	05.01	10.00	0.6	0.8	1.1	1.4	1.8
3	10.01	15.00	0.7	1.0	1.4	1.7	2.1
4	15.01	20.00	0.8	1.2	1.7	2.0	2.4
5	20.01	25.00	0.9	1.4	2.0	2.3	2.7
6	25.01	30.00	1.1	1.7	2.3	2.6	3.0
7	30.01	35.00	1.4	2.0	2.6	2.9	3.3
8	35.01	40.00	1.7	2.3	2.9	3.2	3.6
9	40.01	45.00	2.0	2.6	3.2	3.5	4.0
10	45.01	50.00	2.3	2.9	3.5	3.8	4.4
11	50.01	55.00	2.6	3.2	3.8	4.1	4.8
12	55.01	60.00	2.9	3.5	4.1	4.5	5.2
13	60.01	65.00	3.2	3.8	4.4	4.9	5.6
14	65.01	70.00	3.5	4.1	4.7	5.3	6.0
15	70.01	75.00	3.8	4.4	5.0	5.7	6.4
16	75.01	80.00	4.1	4.7	5.3	6.1	6.8
17	80.01	85.00	4.4	5.0	5.6	6.5	7.2
18	85.01	90.00	4.7	5.3	5.9	6.9	7.6
19	90.01	95.00	5.0	5.6	6.2	7.3	8.0
20	95.01	100.00	5.4	5.9	6.5	7.7	8.4

# What is the Solution?

*An equitable solution must include both benefit and revenue changes.*

## **I) Employer Impacts:**

1) Increase Employer Contributions to the Trust Fund: Phase in taxable wage base increases over three years starting in calendar year 2010. Increase from the current \$8,000 to \$12,000 in 2010, \$16,000 in 2011 and then to \$18,000 in 2012. The change will increase contributions by \$32 million the first year and an additional \$34 million the second year and \$14 million the third year. The taxable wage base will be indexed to the growth in the average wage when taxes return to schedule III of the tax tables.

2) Do not relieve an employer from charges to their experience rating when that employer is non-responsive to initial requests for information from the Department and if that employer fails to participate in subsequent fact finding or appeals. Presently, if benefits have been awarded to a claimant because information provided indicated eligibility and we later find out from the employer that benefits should not have been awarded, we must relieve the employer's experience rating from any charges associated with the claim. This results in charges to the trust fund, but not to the employer's experience rating. Typically, the information supporting denial of benefits is provided by the employer well after the initial inquiry from the Department. This would place the burden on the employer to return initial requests timely and participate in all applicable appeals. As it is today, there is no financial burden for a non-responding/non-participating employer.

3) Charge an administrative fee to reimbursable employers. Presently, reimbursable employers pay only the benefits paid to claimants formerly in their employ. They pay nothing toward the operations of the unemployment system. For profit employers pay the cost of administration through the Federal Unemployment Tax (FUTA). We propose adding a 1% administrative fee to all charges to reimbursable employers. This would cost public and non-profit employers an estimated \$64,000 a year.

## **II) Benefit adjustments:**

1) Reduce the maximum weekly benefit from \$425 to \$409 and cap it at that amount effective in 2009. Nationally the maximum weekly benefit ranges from a low of \$235 in MS to a high of \$600 in MA. We are equal to New Hampshire and higher than New York State (\$409). In New England the maximum weekly benefits range from \$600 in Massachusetts to \$344 in Maine. However, we have the 17<sup>th</sup> highest wage replacement rate of all states. This proposal would also include freezing the automatic increase in the maximum weekly benefit amount until tax schedule III is reached.

In addition, the maximum weekly benefit must be capped at \$425 for the remainder of calendar year 2009. The amount is scheduled to increase July 1, 2009 to an estimated \$438. This increase will only exacerbate the current trust fund problem. Additionally, the ARRA included an additional \$25 per week for all UI claimants. As such, all individuals currently receiving the maximum weekly benefits have effectively already received an increase this year.

2) Modify the weekly benefit amount to be 50% of the average wage replacement. Presently, the weekly benefit amount is calculated at 57% wage replacement of the amount of wages an employee was paid during the previous 5 quarters. As stated above Vermont has the 17<sup>th</sup> highest wage replacement of all states. We can reduce this slightly and be in line with other states.

3) Limit total annual benefits to 1/3 wages or 26 weeks, whichever is shorter. Presently anyone who establishes a “benefit year” is entitled to 26 weeks of benefits. Vermont is one of only 9 states that provide a full 26 weeks. Most states have a variable duration the same or similar to this proposal, which is based on their employment history (base period) being used to compute their eligibility. A worse case scenario is that someone could earn 26 weeks of benefits after working as little as 4 months.

4) Require an average of 20 weeks of work to qualify for benefits. Requiring wages of 1.5 times your high quarter means you must have worked an average of 20 weeks to qualify. Current law allows individuals who have worked 19 weeks during the last 18 months to qualify for benefits. (Items 1-4 will reduce expenditure by \$16.9 million.)

5) A person fired for misconduct is disqualified from receiving benefits until they earn 4 times their weekly benefit amount. Presently if someone is fired for misconduct, defined as “substantial disregard of an employer’s interest,” they

can still collect unemployment benefits for the full 26 weeks after a 9 week delay. Many employers believe an employee should be disqualified from receiving benefits for misconduct. This change will result in the worker needing to earn wages and become unemployed through no fault of their own, which is the current laws of most states, as well as all border states. This reduction will save 2.9 million dollars annually.

6) Prohibit workers fired for gross misconduct from using the wages paid by that employer to qualify for benefits: Currently workers separated for serious (gross) misconduct (such as theft or violence at the workplace) must return to work and earn wages 6 times their weekly benefit amount. This change proposes an additional consequence for serious misconduct by eliminating the use of such wages from computation of the weekly benefit amount.

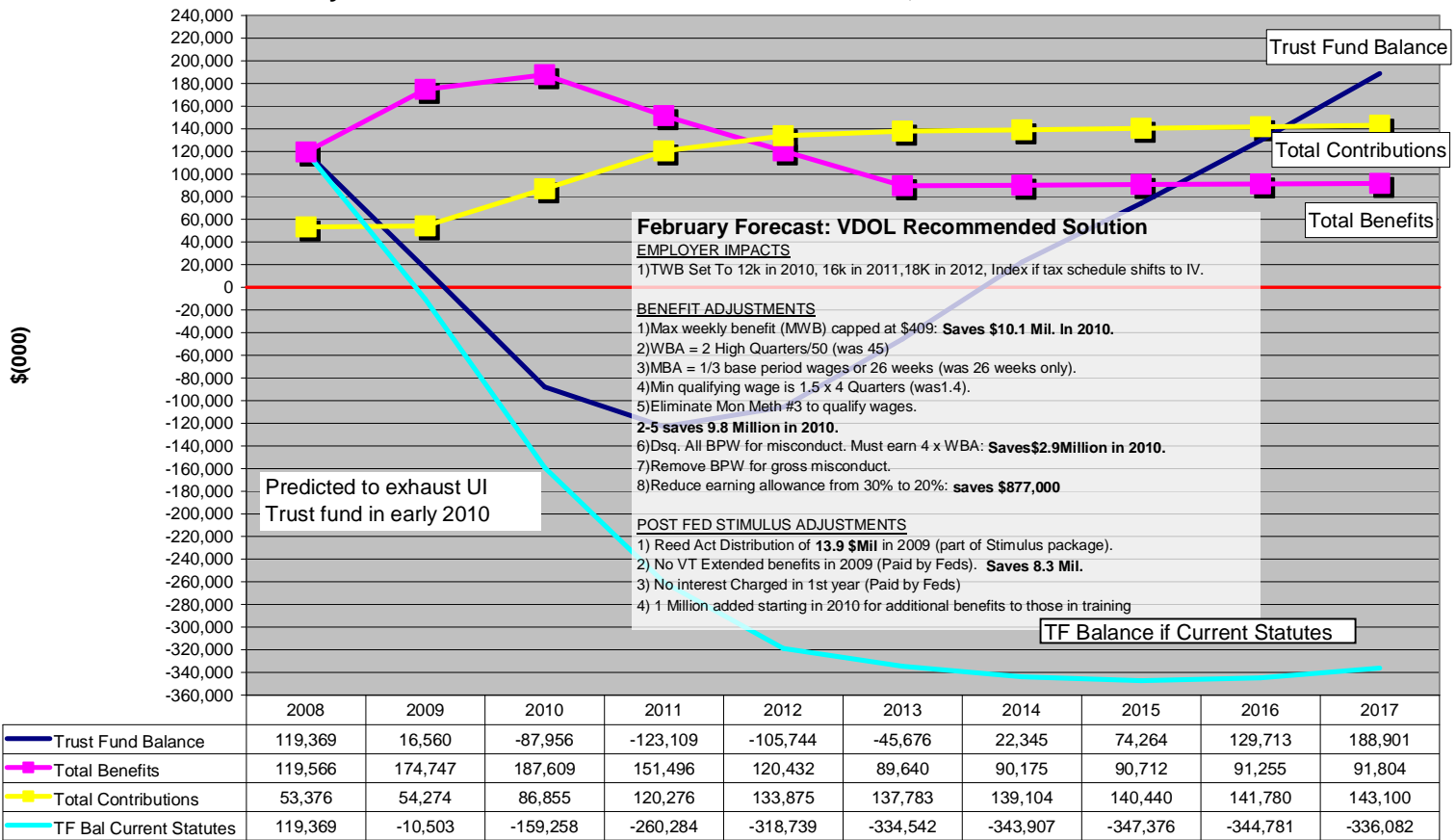
7) Limit eligibility to workers with a significant attachment to the labor market by eliminating one of the three methods to determine a weekly benefit amount. The majority of claimants are found eligible for a weekly benefit amount using the first method, which is all wages paid during the first four of the last five completed quarters. (If a benefit year were established today, we would use wages paid during quarters ending 4/07 through 3/08.) We propose eliminating the 3<sup>rd</sup> method, which was used in 3% of claims filed in FY 08. Vermont is one of only two states that has 3 methods to find an individual monetarily eligible for UI benefits, whereas 16 (Maine, New York, and New Hampshire included) other states use the two methods.

8) Reduce earnings disregard from 30% to 20%. Presently, if a person is working part-time, they can earn up to 30% of their weekly benefit amount and see no reduction in benefits. This would reduce that to 20% of their weekly benefit amount. Example: An individual with a weekly benefit amount of \$425 earning \$300 would receive \$252 in UI; with this change, the UI payment would reduce to \$210. This change will save \$878,000 annually.

9) Order repayment of benefits by claimants when those benefits have been erroneously awarded. Presently, the only time we recoup previously paid benefits is if the erroneous payment resulted from an intentional misrepresentation by the claimant. This provision would require a claimant to repay those benefits regardless. This is tied to #2 above in that we are essentially “requiring” employers to participate timely in requests for information. This will reduce erroneously awarding benefits to claimants and provide a financial incentive to claimants to be truthful from the beginning.

03/27/2009

# Vermont UI Trust Fund Projection: February 2008 Forecast Scenario - VDOL Rec. Solution, TWB = 8k-12k-16k- 18k...



SOURCE: VDOL Benefit Finance Model, March, 2009

## February Forecast Scenario: TWB = 8-12-16-18...

Year	Interest Earned (000)	Trust Fund Balance (000)	Regular Benefits (000)	Extended Benefits (000)	Total Benefits (000)	Total Contributions (000)
2008	6,871	119,369	119,566	0	119,566	53,376
2009	3,639	16,560	174,747	0	174,747	54,274
2010	104	-87,956	181,076	6,533	187,609	86,855
2011	0	-123,109	148,189	3,307	151,496	120,276
2012	0	-105,744	120,432	0	120,432	133,875
2013	0	-45,676	89,640	0	89,640	137,783
2014	272	22,345	90,175	0	90,175	139,104
2015	2202	74,264	90,712	0	90,712	140,440
2016	4936	129,713	91,255	0	91,255	141,780
2017	7904	188,901	91,804	0	91,804	143,100

Year	TUR	Wage Growth	Labor Force Growth	Taxable Wage Base	Max Weekly Benefit	Tax Rate Schedule
2008	5.00	3%	0%	8,000	409	4
2009	7.10	2%	0%	8,000	425	4
2010	7.90	2%	0%	12,000	409	5
2011	6.50	2%	0%	16,000	409	5
2012	5.30	3%	0%	18,000	409	5
2013	4.00	3%	0%	18,000	409	5
2014	4.00	3%	0%	18,000	409	5
2015	4.00	3%	0%	18,000	409	5
2016	4.00	3%	0%	18,000	409	5
2017	4.00	3%	0%	18,000	409	5
2018	4.00	3%	0%	18,000	409	5

Year	Interest Rate %	Cash Advance Amt (Mil.)	Interest Payable September 30 (Mil.)	FUTA Credit Reduction %	FUTA Credit Reduction Payment Jan 1 (Mil.)	Avg Cost of FUTA Credit Reduction per Ins. Emp.
2008	4.62	0.0	0.0	0	0.0	0.0
2009	4.62	0.0	0.0	0	0.0	0.0
2010	4.78	88.0	0.0	0	0.0	0.0
2011	4.7	123.1	5.3	0.3	0.0	0.0
2012	4.68	105.7	5.8	0.6	6.1	28.3
2013	4.63	45.7	3.9	0.9	12.4	57.1
2014	4.73	0.0	1.6	0	18.7	86.3
2015	4.91	0.0	0.0	0	0.0	0.0
2016	5	0.0	0.0	0	0.0	0.0
2017	5.06	0.0	0.0	0	0.0	0.0
<b>TOTALS</b>		<b>362.5</b>	<b>16.6</b>		<b>37.2</b>	

# Why not just raise the Taxable wage Base?

Relying on contribution increases alone will triple taxes and lead to more job losses and unemployment.

Increasing contributions from \$55 million to \$180 million will likely push struggling businesses out of business resulting in more layoffs, decreased business activity and a worsening of this problem. Such increases may lead to companies choosing to leave Vermont at a time when we need to preserve as many jobs as possible.

